

LA MESA-SPRING VALLEY SCHOOL DISTRICT

COUNTY OF SAN DIEGO
LA MESA, CALIFORNIA

AUDIT REPORT

June 30, 2008

DATE RECEIVED:



AUDIT REVIEW #(s) 05078

Assigned To: Mac Millan

Date Reviewed: 7/28/09

Reviewer's Initials: M-

Date Review(s) Completed: 7/28/09



A Professional
Accountancy Corporation

LA MESA-SPRING VALLEY SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

CONTENTS

FINANCIAL SECTION	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Statement of Fund Net Assets – Proprietary Funds.....	20
Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Agency Funds.....	23
Notes to Financial Statements.....	24
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund.....	46

LA MESA-SPRING VALLEY SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008

CONTENTS
(continued)

SUPPLEMENTARY INFORMATION SECTION

Combining Balance Sheet – Non-Major Funds	47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Funds	48
Local Education Agency Organization Structure.....	49
Schedule of Average Daily Attendance	50
Schedule of Instructional Time	51
Schedule of Financial Trends and Analysis	52
Schedule of Expenditures of Federal Awards	53
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	54
Schedule of Excess Sick Leave	55
Note to the Supplementary Information	56

OTHER INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	59
Auditors' Report on State Compliance.....	61

FINDINGS AND QUESTIONED COSTS SECTION

Schedule of Audit Findings and Questioned Costs	63
Summary Schedule of Prior Audit Findings.....	69



A Professional
Accountancy Corporation

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

MURRIETA OFFICE

PH: 951.698.8783

FAX: 951.699.1064

25090 Jefferson Avenue

Murrieta, CA 92562

SAN DIEGO OFFICE

PH: 619.270.8222

FAX: 619.260.9085

2727 Camino Del Rio S.

Suite 219

San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE

www.nnwcpc.com

Licensed by the California
Board of Accountancy

Board of Trustees

La Mesa-Spring Valley School District

La Mesa, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Mesa-Spring Valley School District, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the La Mesa-Spring Valley School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the La Mesa-Spring Valley School District as of June 30, 2008, and the respective changes in financial position thereof and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008 on our consideration of the La Mesa-Spring Valley School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 13 and Budgetary Comparison Schedule on page 46 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise La Mesa-Spring Valley School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



San Diego, California
November 17, 2008

Management's Discussion and Analysis

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

This Management Discussion and Analysis should be read in conjunction with the District's financial statements (including notes and supplementary information), which begin on page 16. This section of La Mesa-Spring Valley School District's (the District) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

- The District's total net assets from governmental activities were \$74,972,422.
- General Fund revenue was \$107,422,246 and the expenditures were \$111,387,747, decreasing fund balance 19.9%.
- In 2007-08, the District invested \$ 4,028,824 in capital assets, primarily for the modernization of school sites using a combination of general obligation bond proceeds and state funds.
- Long-term debt decreased by \$2,734,939.

Continued modernization of all schools, total cost this year: \$4,079,939 Projects include: Electrical upgrades (including new wiring); new fire alarm system; new classroom doors and hardware; new windows; ADA upgrades (restrooms, walkways and parking); new energy management systems; interior painting; new carpeting and flooring; remodeled office and reception area; new wheel chair lifts; energy efficient drop ceilings and lighting; landscaping; new HVAC and boilers; repaved road and new fire line; and new roofing.

- ✓ Electrical and fire alarm upgrades at Casa De Oro, Fletcher Hills, La Mesa Dale, La Mesa Middle, Spring Valley Middle, and Loma Elementary.
- ✓ Interior painting at Highlands, Kempton, and Sweetwater Springs.
- ✓ ADA compliance upgrades to restrooms, walkways, and parking at Rancho, Rolando, La Mesa Dale, La Mesa Middle, Murray Manor, Loma, and Highlands.
- ✓ Install HVAC in Library and Administration at Casa De Oro, La Mesa Dale, La Mesa Middle, Spring Valley Middle, and upgraded HVAC ductwork for the entire campus at Loma.
- ✓ Installed new boilers at La Presa Elementary and La Presa Middle.
- ✓ Energy management systems installed at La Mesa Middle, La Presa Middle, Parkway Middle, and Spring Valley Middle.
- ✓ New fire line at Parkway Middle.
- ✓ New energy efficient lighting and dropped ceilings at Bancroft, Highlands, Loma, and La Presa Middle.
- ✓ New windows at Bancroft, Loma, Kempton, and La Mesa Dale.
- ✓ Classroom doors and hardware installed at Fletcher Hills, Highlands, Northmont, Rancho, Parkway Middle, La Mesa Middle, Spring Valley Middle, Kempton, La Presa Elementary, Bancroft and Loma.
- ✓ Carpet/flooring installation at La Mesa Dale, Highlands, and Loma;
- ✓ New wheel chair lifts at La Mesa Dale and Murray Manor;
- ✓ Remodel of office and reception area at La Mesa Dale; and remodel of office at Loma
- ✓ New roofing at Highlands, La Mesa Dale and Loma

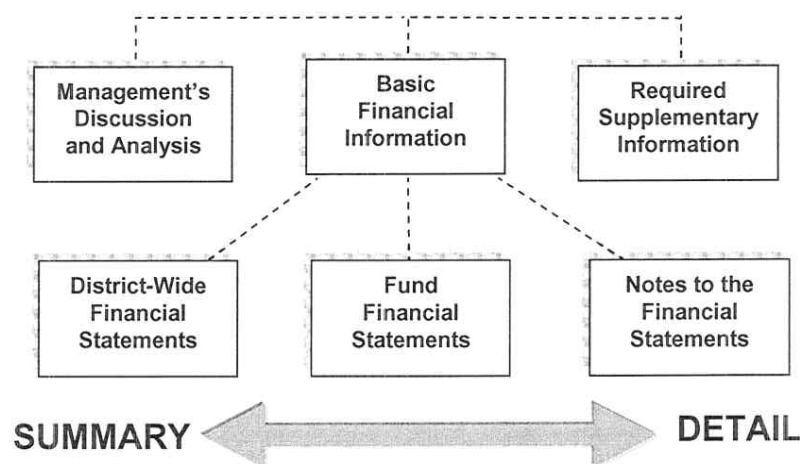
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.
 - *Proprietary funds* statements offer short – and long-term financial information about the District's child care funds.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explain and support the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of La Mesa-Spring Valley School District's Annual Financial Report



LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.
- *Business-Type activities* – The District reports the child care program as a business-type activity.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
 - We use *Enterprise funds* to report activities related to the child care programs.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Net Assets. The District's governmental net assets as of June 30, 2008 were \$74,972,422 reflecting a decrease of 2% since June 30, 2007 (See Table A-1). Business-type activities' net assets increased 134% to \$106,109 as of June 30, 2008 due to the transfer of the ESS program from a governmental activity to a business-type activity.

Table A-1
 La Mesa-Spring Valley School District's Net Assets

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2007	2008	2007-08	2007	2008	2007-08
Current and other assets	\$ 44,463,089	\$ 37,728,383	-15%	\$ 47,460	\$ 737,095	1453%
Capital assets	85,335,225	85,900,446	1%	-	-	0%
Total assets	129,798,314	123,628,829	-5%	47,460	737,095	1453%
Current liabilities	5,048,820	2,979,776	-41%	2,170	630,986	28978%
Long-term liabilities	48,411,571	45,676,631	-6%	-	-	0%
Total liabilities	53,460,391	48,656,407	-9%	2,170	630,986	28978%
Total net assets	\$ 76,337,923	\$ 74,972,422	-2%	\$ 45,290	\$ 106,109	134%

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

Changes in net assets. Total expenses surpassed revenues by \$1,365,501 in governmental activities. A surplus in business-type activities of \$60,819 resulted in 2007-08, see Table A-2. The increase in total revenues and expenses in business-type activities is due to the transfer of the ESS program accounting from the governmental-activities in 2007-08.

Table A-2
Changes in La Mesa-Spring Valley School District's Net Assets

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2007	2008	2007-08	2007	2008	2007-08
Revenues:						
<i>Program revenues</i>						
Charges for services	\$ 4,184,804	\$ 3,173,860	-24%	\$ -	\$ 3,339,463	100%
Federal & state categorical	30,372,847	28,747,711	-5%	-	40,741	100%
Capital grants and contributions	1,305,409	30,831	-98%	-	-	0%
<i>General revenues</i>						
Property taxes and state	81,161,398	82,194,540	1%	-	-	0%
Transfers in	-	99,187	100%	-	-	0%
Other revenues	7,395,997	1,461,597	-80%	126,342	102,690	-19%
Total revenues	124,420,455	115,707,726	-7%	126,342	3,482,894	2657%
Expenses:						
Instruction-related	82,242,348	84,951,462	3%	-	-	0%
Student support services	13,558,435	14,588,690	8%	-	-	0%
Maintenance & operations	9,295,344	9,822,554	6%	-	-	0%
Administration	4,634,383	1,992,553	-57%	-	-	0%
Loan payable (transfers out)	-	-	0%	43,779	99,187	127%
Other expenses	9,730,211	5,717,968	-41%	90,620	3,322,888	3567%
Total expenses	119,460,721	117,073,227	-2%	134,399	3,422,075	2446%
Change in net assets	\$ 4,959,734	\$ (1,365,501)	-128%	\$ (8,057)	\$ 60,819	-855%

Governmental Activities

Revenue for the District's governmental activities is \$115,707,726, and the expenses were \$117,073,227. The sound financial condition of the District can be credited to the following management actions:

- Conservative district philosophy, fiscal management and cash flow management.
- Adopted District policy on energy conservation
- The District maintains a centralized budgeting approach that allows for controls at the administrative level.
- Position control (TUnits) procedures require budget allocation and approval prior to creation of new positions insuring that communication is maintained between the Business Office and the Human Resources Office.
- Class sizes are monitored closely in grades kindergarten through three that participate in the class size reduction program and in all other grades to assure that teacher student ratios are optimum.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

Governmental Activities (continued)

Table A-3 presents the cost of five major District activities: instruction and instruction related; student support services; general administration; maintenance, operations and facility acquisition; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all *governmental* activities this year was \$117,073,227.
- Some of the cost was paid by the users of the District's programs \$3,173,860.
- The federal and state governments subsidized programs with grants and contributions \$28,778,542.
- Most of the District's costs (\$85,120,825), however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

Table A-3
Net Costs of La Mesa-Spring Valley School District's

	Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instructional services	\$ 84,951,462	\$ (63,126,860)
Pupil support services	14,588,690	(6,521,941)
Maintenance & operations	9,822,554	(9,732,770)
Administration	1,992,553	(1,532,400)
Other expenses	5,717,968	(4,206,854)
Total expenses	<u>\$ 117,073,227</u>	<u>\$ (85,120,825)</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$34,748,607, which is below last year's ending fund balance of \$40,658,666 due to the expenditure of bond proceeds on modernization projects.

General Fund Budgetary Highlights

Over the course of the year, the Board approves seven versions of the operating budget. These budget revisions fall into the categories of Preliminary, Adopted, First Interim, Second Interim, Third Interim, Estimated Actual and Final Adopted.

Major budget amendments in revenue for the year include changes in federal grants such as:

- Title programs; Special Education, IDEA, Local assistance; and Medi-Cal billing option.

Major budget amendments in expenditures include changes in staff due to changes in enrollment, categorical and special education staffing needs. Books and supplies, and services were increased as necessary to meet program and educational requirements. Capital outlay budgets increased as projects were identified and prioritized.

The District's final budget for the combined general fund showed anticipated revenues to be approximately \$11,661,994 under expenditures and other financing uses, whereas the actual results for the year show a \$4,392,635 deficit. The primary reason for the difference in the projection and the actual expenditures is due to unspent categorical program budgets and unrestricted educational programs.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008 the District had invested \$119,926,240 in a broad range of capital assets, including (Land Improvements, Building Construction, Work in Progress, and Equipment). (See Table A-4). This amount represents a net increase of 3% over last year's amount of \$115,897,416. Total depreciation expense for the year was \$3,463,603, and additions to capital assets amounted to \$4,028,824. More detailed information about capital assets can be found in Note 4 to the financial statements. La Mesa-Spring Valley plans to add to the capital assets for 2008-09 by completing or continuing the projects currently in progress.

La Mesa-Spring Valley School District's Capital Assets

	Governmental Activities		Total Percentage Change
	2007	2008	2007-08
Land	\$ 16,201,920	\$ 16,201,920	0%
Land Improvements	2,884,786	3,068,517	6%
Buildings	89,905,704	93,401,080	4%
Equipment and furniture	6,499,200	6,853,891	5%
Work in progress	405,806	400,832	-1%
Total	<u>\$ 115,897,416</u>	<u>\$ 119,926,240</u>	<u>3%</u>

Long-Term Debt

At year-end the District had \$45,676,632 in General Obligation Bonds, Capital Leases, Postemployment Benefits and Compensated Absences – a decrease of 6% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.) The District has no plans for future debt.

La Mesa-Spring Valley School District's Long-Term Debt

			Total Percentage Change
	2007	2008	2007-08
General obligation bonds	\$ 44,126,049	\$ 43,226,728	-2%
Other postemployment benefits	3,406,134	-	-100%
Capital leases	181,016	122,871	-32%
Early retirement incentive	-	1,557,920	100%
Compensated absences	698,372	769,112	10%
Total	<u>\$ 48,411,571</u>	<u>\$ 45,676,631</u>	<u>-6%</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE

On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes, at the time the budget was adopted, that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth.
- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.

Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, La Mesa-Spring Valley School District, 4750 Date Ave., La Mesa, CA 91941.

Financial Section

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Total Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 26,355,983	\$ 584,558	\$ 26,940,541
Accounts receivable	11,124,727	152,537	11,277,264
Inventories	247,673	-	247,673
Capital assets:			
Land	16,201,920	-	16,201,920
Improvement of sites	3,068,517	-	3,068,517
Buildings	93,401,080	-	93,401,080
Furniture and equipment	6,853,891	-	6,853,891
Work in progress	400,832	-	400,832
Less accumulated depreciation	(34,025,794)	-	(34,025,794)
Total capital assets, net of depreciation	85,900,446	-	85,900,446
Total assets	123,628,829	737,095	124,365,924
LIABILITIES			
Accounts payable and current liabilities	2,072,290	539,976	2,612,266
Deferred revenues	907,486	91,010	998,496
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds payable	935,000	-	935,000
Capital leases payable	73,630	-	73,630
Portion due or payable after one year			
General obligation bonds payable	42,291,728	-	42,291,728
Compensated absences payable	769,112	-	769,112
Capital leases payable	49,241	-	49,241
Early retirement incentive	1,557,920	-	1,557,920
Total liabilities	48,656,407	630,986	49,287,393
NET ASSETS			
Invested in capital assets, net of related debt	48,740,023	-	48,740,023
Restricted for:			
Capital projects	4,322,516	-	4,322,516
Debt service	2,116,489	-	2,116,489
Categorical programs	4,894,430	-	4,894,430
Unrestricted	14,898,964	106,109	15,005,073
Total Net Assets	\$ 74,972,422	\$ 106,109	\$ 75,078,531

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
Instructional Services:							
Instruction	\$ 72,000,533	\$ 58,176	\$ 18,055,908	\$ 30,831	\$ (53,855,618)	\$ -	\$ (53,855,618)
Instruction-Related Services:							
Supervision of instruction	3,845,144	2,060	2,402,979	-	(1,440,105)	-	(1,440,105)
Instructional library, media and technology	2,593,993	-	1,229,394	-	(1,364,599)	-	(1,364,599)
School site administration	6,511,792	591	44,663	-	(6,466,538)	-	(6,466,538)
Pupil Support Services:							
Home-to-school transportation	3,613,446	139,694	1,182,238	-	(2,291,514)	-	(2,291,514)
Food services	4,725,074	1,620,327	3,104,656	-	(91)	-	(91)
All other pupil services	6,250,170	157,964	1,861,870	-	(4,230,336)	-	(4,230,336)
General Administration Services:							
Data processing services	577,181	-	-	-	(577,181)	-	(577,181)
Other general administration	1,415,372	73,859	386,294	-	(955,219)	-	(955,219)
Plant services	9,822,554	2	89,782	-	(9,732,770)	-	(9,732,770)
Community services	2,083,265	1,104,283	384,076	-	(594,906)	-	(594,906)
Enterprise activities	17,829	16,904	5,851	-	4,926	-	4,926
Interest on long-term debt	153,271	-	-	-	(153,271)	-	(153,271)
Depreciation (unallocated)	3,463,603	-	-	-	(3,463,603)	-	(3,463,603)
Total Governmental Activities	117,073,227	3,173,860	28,747,711	30,831	(85,120,825)	-	(85,120,825)
Business-type activities							
Other outgo	-	94,746	1,156	-	-	95,902	95,902
Enterprise activities	3,322,888	3,244,717	39,585	-	-	(38,586)	(38,586)
Total Business-type Activities	3,322,888	3,339,463	40,741	-	-	57,316	57,316
Total Expenses	\$ 120,396,115	\$ 6,513,323	\$ 28,788,452	\$ 30,831	\$ (85,120,825)	\$ 57,316	\$ (85,063,509)
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					23,786,685	-	23,786,685
Property taxes, levied for debt service					2,319,680	-	2,319,680
Property taxes, levied for special purposes					29,592	-	29,592
Federal and state aid not restricted to specific purpose							
					56,058,583	-	56,058,583
Interest and investment earnings					1,379,187	3,490	1,382,677
Special and extraordinary items					(1,557,918)	-	(1,557,918)
Miscellaneous					1,640,328	99,200	1,739,528
Internal transfers					99,187	(99,187)	-
Total general revenues					83,755,324	3,503	83,758,827
Change in net assets							
					(1,365,501)	60,819	(1,304,682)
Net assets - July 1, 2007					76,337,923	45,290	76,383,213
Net assets - June 30, 2008					\$ 74,972,422	\$ 106,109	\$ 75,078,531

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2008

	General Fund	Building Fund	Non-Major Funds	Total Governmental Funds
ASSETS				
Cash	\$ 9,782,467	\$ 6,439,411	\$ 10,134,105	\$ 26,355,983
Accounts receivable	9,846,552	73,234	1,204,941	11,124,727
Due from other funds	308,815	-	12,287	321,102
Inventories	196,356	-	51,317	247,673
Total Assets	<u>\$ 20,134,190</u>	<u>\$ 6,512,645</u>	<u>\$ 11,402,650</u>	<u>\$ 38,049,485</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,596,962	\$ 323,469	\$ 151,859	\$ 2,072,290
Due to other funds	1,000	-	320,102	321,102
Deferred revenue	907,486	-	-	907,486
Total Liabilities	<u>2,505,448</u>	<u>323,469</u>	<u>471,961</u>	<u>3,300,878</u>
Fund Balances				
Reserved for:				
Inventories	196,356	-	51,317	247,673
Revolving cash	46,478	-	-	46,478
Categorical programs	4,894,430	-	-	4,894,430
Debt service	-	-	2,116,489	2,116,489
Unreserved; reported in:				
General fund	12,491,478	-	-	12,491,478
Special revenue funds	-	6,189,176	4,440,367	10,629,543
Capital project funds	-	-	4,322,516	4,322,516
Total Fund Balances	<u>17,628,742</u>	<u>6,189,176</u>	<u>10,930,689</u>	<u>34,748,607</u>
Total Liabilities and Fund Balances	<u>\$ 20,134,190</u>	<u>\$ 6,512,645</u>	<u>\$ 11,402,650</u>	<u>\$ 38,049,485</u>

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets
June 30, 2008

Total fund balances - governmental funds \$ 34,748,607

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$119,926,240 and the accumulated depreciation is \$(34,025,794). 85,900,446

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligation bonds payable	43,226,728	
Compensated absences	769,112	
Capital leases payable	122,871	
Other general long-term debt	1,557,920	(45,676,631)

Total net assets - governmental activities \$ 74,972,422

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2008

	General Fund	Building Fund	Non-Major Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 23,816,525	\$ -	\$ 2,319,430	\$ 26,135,955
Federal and state aid not restricted to specific purpose	56,058,584	-	-	56,058,584
Earnings on investments	788,133	310,865	280,190	1,379,188
Miscellaneous	1,132,603	-	507,725	1,640,328
Program Revenues:				
Charges for services	1,472,208	-	1,701,653	3,173,861
Operating grants and contributions	24,154,193	-	4,593,518	28,747,711
Capital grants and contributions	-	-	30,831	30,831
Total revenues	107,422,246	310,865	9,433,347	117,166,458
EXPENDITURES				
Instructional Services:				
Instruction	71,256,556	-	746,428	72,002,984
Instruction-Related Services:				
Supervision of instruction	3,703,403	-	141,741	3,845,144
Instructional library, media and technology	2,608,335	-	-	2,608,335
School site administration	6,497,404	-	52,307	6,549,711
Pupil Support Services:				
Home-to-school transportation	3,830,576	-	-	3,830,576
Food services	402	-	4,724,671	4,725,073
All other pupil services	6,211,900	-	38,271	6,250,171
General Administration Services:				
Other general administration	4,581,280	-	182,658	4,763,938
Plant services	9,677,841	19,241	162,859	9,859,941
Facility acquisition and construction	270,241	2,459,663	944,233	3,674,137
Community services	2,085,176	-	3,088	2,088,264
Enterprise activities	776	-	31,297	32,073
Other outgo:				
Debt service - principal	58,145	-	935,000	993,145
Debt service - interest	15,485	-	1,346,500	1,361,985
Total Expenditures	111,387,747	2,478,904	9,309,053	123,175,704
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,965,501)	(2,168,039)	124,294	(6,009,246)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	146,657	-	573,791	720,448
Interfund transfers out	(573,791)	-	(47,470)	(621,261)
Total Other Financing Sources and Uses	(427,134)	-	526,321	99,187
Net Change in Fund Balances	(4,392,635)	(2,168,039)	650,615	(5,910,059)
Fund Balances, July 1, 2007	22,021,377	8,357,215	10,280,074	40,658,666
Fund Balances, June 30, 2008	\$ 17,628,742	\$ 6,189,176	\$ 10,930,689	\$ 34,748,607

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2008

Total net change in fund balances - governmental funds	\$ (5,910,059)
--	----------------

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$4,028,826 exceed depreciation expense (\$3,463,603) in the period.	565,223
--	---------

In governmental funds repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	993,145
---	---------

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually <i>paid</i> .)	(70,741)
--	----------

In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	35,680
--	--------

In governmental funds, costs related to postemployment benefits other than pensions are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. This year, the prior liability was reversed in anticipation of implementation of GASB Statement #45 in 2008-09.	3,406,134
---	-----------

Change in net assets of governmental activities	<u><u>\$ (1,365,501)</u></u>
---	------------------------------

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2008

	Business-Type Activities: Enterprise Fund
ASSETS	
Cash and cash equivalents	\$ 584,558
Accounts receivables	152,537
	<hr/>
Total Assets	737,095
	<hr/>
LIABILITIES	
Accounts payable and accrued liabilities	539,976
Deferred revenues	91,010
	<hr/>
Total liabilities	630,986
	<hr/>
NET ASSETS	
Unrestricted	106,109
Total net assets	<hr/>
	<hr/>
	\$ 106,109
	<hr/>
	<hr/>

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets –
Proprietary Funds
For the Year Ended June 30, 2008

	Business-Type Activities: Enterprise Fund
OPERATING REVENUES	
Fees and contracts	\$ 3,455,686
Total operating revenues	3,455,686
OPERATING EXPENSES	
Enterprise Activities	
Certificated salaries	117,554
Classified salaries	2,330,097
Employee benefits	585,324
Books and supplies	31,588
Services and other operating expenses	258,326
Total operating expenses	3,322,888
Operating income (loss)	132,798
NON-OPERATING REVENUES	
Interest income	27,208
NON-OPERATING EXPENSE	
Loan repayment	(99,187)
CHANGE IN NET ASSETS	60,819
NET ASSETS, JULY 1, 2007	45,290
NET ASSETS, JUNE 30, 2008	\$ 106,109

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Cash Flow – Proprietary Funds
For the Year Ended June 30, 2008

	Business Type Activities: Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from fees and contracts	\$ 3,308,255
Cash payments for operating expenses	(2,694,072)
Net cash provided by operating activities	614,183
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	27,208
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash payments for non-operating expenses	(99,187)
Net increase in cash	542,204
Cash, July 1, 2007	42,354
Cash, June 30, 2008	\$ 584,558
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 132,798
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(147,431)
Increase in accounts payable	537,806
Increase in deferred revenue	91,010
Net cash provided (used) by operating activities	\$ 614,183

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Agency Funds
June 30, 2008

	Student Body Funds
ASSETS	
Cash	\$ 191,410
Total Assets	<u>\$ 191,410</u>
LIABILITIES	
Due to Student Groups	\$ 191,410
Total Liabilities	<u>\$ 191,410</u>

The notes to the financial statements are an integral part of this statement.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the district.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund and fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the district's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The district does not allocate indirect expenses to functions in the statement of activities.

Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the district.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are parent fees for child care programs. Operating expenses for enterprise funds include staff and operating expenses.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (continued)

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

“Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the district, “available” means collected within the current period or within 60 days after yearend.

Non-exchange transactions, in which the district receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (continued)

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary, and fiduciary as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (continued)

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

Non-Major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four special revenue funds:

1. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the district.
2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
4. The *Special Reserve for Other Than Capital Outlay Fund* is used to accumulate resources for the District Option Out program.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:

1. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
2. The *Special Reserve Fund for Capital Outlay* is used to account for resources used for the construction and modernization of capital facilities.
3. The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.
4. The *State School Building Lease-Purchase Fund* is used primarily to account for state apportionments provided for construction and reconstruction of school facilities.

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. One debt service fund is maintained by the District, the Bond Interest and Redemption Fund which is used to account for the accumulation of resources for, and the repayment of, District bonds, interest, and related costs.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (continued)

Fiduciary Funds:

Agency Funds are used to account for assets held by the District as trustee. The Agency Funds are custodial in nature and do not involve measurement of results of operations. The funds account for the student body activities at participating school sites. These organizations exist at the explicit approval, subject to revocation, of the District's governing board. The information is presented on a combined basis for all campuses.

Proprietary Fund

Enterprise Funds are financed and operated in a manner similar to that employed by private business enterprises; that is, the governing board's intent is that the costs (expenses, including depreciation) of providing continuous goods or services can be financed or recovered through charges to users. The District maintains the childcare before and after school (parent paid) program in the Child Care Enterprise Fund.

F. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The adopted and final revised budget is presented for the General Fund in the financial statements.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Budgets and Budgetary Accounting (continued)

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations (continued)

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribe by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. New GASB Pronouncements

During the 2007-08 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 48-*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceed received as lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50-*Pension Disclosures-and amendment of GASB Statements No. 25 and No.27* was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Funds	Enterprise Funds	Fiduciary Funds
Cash in county treasury	\$ 25,857,964	\$ 517,630	\$ -
Cash on hand and in banks	451,544	66,928	191,410
Cash in revolving fund	46,475	-	-
Total deposits and investments	<u>\$ 26,355,983</u>	<u>\$ 584,558</u>	<u>\$ 191,410</u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Cash in County Treasury – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$26,454,722 and an amortized book value of \$26,375,594. The average weighted maturity for this pool is 427 days.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Diego County Investment Pool is rated AAAs/S1 by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies.

California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2008, the District's was not exposed to custodial credit risk.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	Building Fund	Non-Major Governmental Funds	Total Governmental Activities	Enterprise Fund
Federal Government:					
Categorical aid	\$ 1,425,131	\$ -	\$ 577,717	\$ 2,002,848	\$ -
State Government:					
Revenue Limit	4,560,868	-	-	4,560,868	-
Categorical aid	1,609,922	-	80,033	1,689,955	-
Lottery	848,065	-	-	848,065	-
Local:					
Interest	164,691	63,831	141,954	370,476	4,402
Miscellaneous	1,237,875	9,403	405,237	1,652,515	148,135
Total	<u>\$ 9,846,552</u>	<u>\$ 73,234</u>	<u>\$ 1,204,941</u>	<u>\$ 11,124,727</u>	<u>\$ 152,537</u>

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Beginning Balance July 1, 2007	Additions	Deletions	Ending Balance June 30, 2008
Land	\$ 16,201,920	\$ -	\$ -	\$ 16,201,920
Site improvements	2,884,786	183,731	-	3,068,517
Buildings and improvements	89,905,704	3,495,376	-	93,401,080
Furniture and equipment	6,499,200	365,691	11,000	6,853,891
Work in progress	405,806	400,832	405,806	400,832
Total at historical cost	<u>115,897,416</u>	<u>4,445,630</u>	<u>416,806</u>	<u>119,926,240</u>
Less accumulated depreciation:				
Site improvements	2,116,419	76,235	-	2,192,654
Buildings and improvements	23,542,210	3,122,062	-	26,664,272
Furniture and equipment	4,903,562	265,306	-	5,168,868
Total accumulated depreciation	<u>30,562,191</u>	<u>3,463,603</u>	<u>-</u>	<u>34,025,794</u>
Governmental activities capital assets, net	<u>\$ 85,335,225</u>	<u>\$ 982,027</u>	<u>\$ 416,806</u>	<u>\$ 85,900,446</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 5 - INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due From Other Funds		Total
	General Fund	Other Governmental Fund	
General Fund	\$ -	\$ 1,000	\$ 1,000
Other Governmental Funds	308,815	11,287	320,102
Total	<u>\$ 308,815</u>	<u>\$ 12,287</u>	<u>\$ 321,102</u>

Child Development Fund due to General Fund for indirect cost, expenditures transfers, and reimbursement of employee benefits	\$ 30,689
Cafeteria Fund due to General Fund for indirect cost, debt service, and reimbursement of salary and employee benefits	243,441
Special Reserve for Other than Capital Outlay Fund due to General Fund for wellness expenditures	29,538
Capital Facilities Fund due to General Fund for 3% administrative charges.	5,147
Child Development due to Cafeteria Fund for June 2008 lunches	11,287
General Fund due to Cafeteria Fund for reclassification.	1,000
Total	<u>\$ 321,102</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 5 - INTERFUND ACTIVITIES (Continued)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2007-08 fiscal year are as follows:

	Transfers to Other Funds			Total
	General Fund	Non-Major Governmental Funds	Other Enterprise Fund	
General Fund	\$ -	\$ 47,470	\$ 99,187	\$ 146,657
Non-Major Governmental Funds	573,791	-	-	573,791
Total	<u>\$ 573,791</u>	<u>\$ 47,470</u>	<u>\$ 99,187</u>	<u>\$ 720,448</u>
Transfer from the General Fund to the Deferred Maintenance Fund for district match.				\$ 573,791
Transfer from the Other Enterprise Fund to the General Fund for indirect costs and interest for a temporary loan.				99,187
Transfer from the Special Reserve Fund for other than Capital Outlay to the General Fund for wellness expenses.				47,470
Total				<u>\$ 720,448</u>

NOTE 6 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is shown below.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Due Within One Year
General obligation bonds	\$ 44,126,049	\$ 35,679	\$ 935,000	\$ 43,226,728	\$ 935,000
Early retirement incentive	-	1,557,920	-	1,557,920	-
Capital leases payable	181,016	-	58,145	122,871	73,630
Postemployment benefits	3,406,134	-	3,406,134	-	948,956
Compensated absences	698,372	70,740	-	769,112	-
Totals	<u>\$ 48,411,571</u>	<u>\$ 1,664,339</u>	<u>\$ 4,399,279</u>	<u>\$ 45,676,631</u>	<u>\$ 1,957,586</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

General Obligation Bonds

On March 5, 2002, the voters of the La Mesa-Spring Valley School District approved by more than 55% Proposition M, authorizing the issuance and sale of \$44,000,000 of general obligation bonds. On June 26, 2002, the District issued Series A of the Election of 2002 General Obligation Bonds in the amount of \$31,330,140. On March 9, 2005, the District refinanced the Series A bonds and issued Series B bonds. The 2005 General Obligation Refunding Bonds amount to \$31,885,000 and the 2002 General Obligation Bonds, Series B amount to \$12,669,709, resulting in total bond indebtedness of \$44,554,709, as described:

- The 2005 General Obligation Refunding Bonds Consist of current interest serial bonds of \$31,885,000 with stated interest rates ranging from 3.0% to 5.0% and fully maturing on August 1, 2021. The principal balance outstanding as of June 30, 2008 is \$30,080,000.
- The 2002 General Obligation Series B bond issue consists of: (a) current interest serial bonds of \$240,000 with a stated interest rate of 3.0% and fully maturing on August 1, 2005; and, (b) capital appreciation serial bonds of \$12,429,709 with a yield ranging from 4.9% to 5.2% and fully maturing on August 1, 2028. The principal balance outstanding as of June 30, 2008 is \$12,429,709 plus \$717,020 in accreted interest on the capital appreciation bonds.

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2008, are as follows:

Fiscal Year	Principal*	Interest	Total
2008-2009	\$ 1,070,000	\$ 1,329,475	\$ 2,399,475
2009-2010	1,205,000	1,297,375	2,502,375
2010-2011	1,360,000	1,258,325	2,618,325
2011-2012	1,520,000	1,212,525	2,732,525
2012-2013	1,700,000	1,156,250	2,856,250
2013-2018	11,725,000	4,603,063	16,328,063
2018-2023	14,583,239	5,313,761	19,897,000
2023-2028	7,760,972	14,209,028	21,970,000
2028-2029	1,585,497	3,849,502	5,434,999
	<u>\$ 42,509,708</u>	<u>\$ 34,229,304</u>	<u>\$ 76,739,012</u>

* Does not include accreted interest of \$717,020 as of June 30, 2008

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 6 – GENERAL LONG-TERM DEBT (continued)

Lease Agreement

On November 26, 1997, the District entered into a leasing agreement with Xerox for photocopy equipment. The term of the lease ends on April, 2010. Future minimum lease payments under this agreement are as follows:

<u>Fiscal Year</u>	<u>Lease Payment</u>
2008-2009	\$ 73,630
2009-2010	61,357
Total	134,987
Less Amount Representing Interest	(12,116)
Present Value of Net Minimum Lease Payments	\$ 122,871

NOTE 7 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Litigation

Various claims and litigation involving the District are currently outstanding. However, management of the District believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

Construction Commitments

As of June 30, 2008, the District had minor commitments with respect to unfinished capital projects.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – FUND BALANCES

Fund balances Designated by the Board of Education are composed of the following elements:

	General Fund
Unreserved	
Designated	
Economic Uncertainties (2% beyond State required 3%)	\$ 2,245,297
Vacation (Accrued balance as of June 30, 2008)	769,113
Mandated Costs (GASB 45 designated)	2,110,374
Lottery Revenue (One year's revenue in arrears)	1,512,373
Total Designated by the Board	<u>\$ 6,637,157</u>

Fund balances with State required reservations and district designations are composed of the following elements:

	General Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve for Other Than Capital Outlay
Reserved					
Revolving Cash	\$ 46,478	\$ -	\$ -	\$ -	\$ -
Stores Inventory	196,356	-	51,317	-	-
Restricted Programs	4,894,430	-	-	-	-
Total Reserved	<u>5,137,264</u>	<u>-</u>	<u>51,317</u>	<u>-</u>	<u>-</u>
Unreserved					
Designated					
Economic Uncertainties	3,341,632	-	-	-	-
Staff Development Training	249,438	-	-	-	-
School Site Carryover	142,021	-	-	-	-
Donations Carryover	257,681	-	-	-	-
Mini-Grant Carryover	42,736	-	-	-	-
Library Book Carryover	11,890	-	-	-	-
Textbook Account Carryover	2,797	-	-	-	-
Washington DC MS Carryover	678	-	-	-	-
Academic Performance	84,004	-	-	-	-
Governors Performance Award	83,044	-	-	-	-
After School Learning	230,763	-	-	-	-
21st Century Community Learning	99,225	-	-	-	-
Community Development Funds	207,690	-	-	-	-
Center Based Reserve	-	289,438	-	-	-
Operating Reserve	-	-	718,646	-	-
Catering	-	-	76,414	-	-
Facilities Maintenance	-	-	-	1,630,597	-
District Opt Out Program	-	-	-	-	1,337,575
Interest Income	-	-	-	-	387,697
Total Designated	<u>4,753,599</u>	<u>289,438</u>	<u>795,060</u>	<u>1,630,597</u>	<u>1,725,272</u>
Undesignated	1,100,722	-	-	-	-
Total Unreserved	<u>1,100,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 10,991,585</u>	<u>\$ 289,438</u>	<u>\$ 846,377</u>	<u>\$ 1,630,597</u>	<u>\$ 1,725,272</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 9 – JOINT VENTURES (Joint Powers Agreement)

The La Mesa-Spring Valley School District participates in one joint venture under a joint powers agreement (JPA), the San Diego County Schools Risk Management JPA (RM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provides workers' compensation, health, and property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the most currently available year ended June 30, 2007 is as follows:

	RM
Total Assets	\$ 91,261,574
Total Liabilities	44,556,823
Fund Equity	<u>46,704,751</u>
Total Revenue	53,931,705
Total Expenditures	<u>41,882,948</u>
Net Increase in Fund Balance	<u>\$ 12,048,757</u>

NOTE 10 – POSTEMPLOYMENT BENEFITS PAYABLE

The District extends medical/dental insurance benefits to eligible employees having reached the minimum retirement age of fifty-five (55) years and accepting retirement benefits, as provided under the Public Employees' Retirement System or State Teachers' Retirement System, and having a minimum of ten (10) years of continuous service in the District rendered during the immediate past fifteen (15) years. Premiums for health insurance benefits are paid by the District to the in-force carrier until such time as the retiree reaches age sixty-five (65) or becomes eligible for any other National or Government agency coverage including Medicare or National Health Insurance, whichever comes first. Additionally, the District makes available to qualified retirees the option to purchase medical insurance coverage for their spouse. The District funds obligations on a pay-as-you-go basis. There are approximately 154 participants eligible to recover benefits as of June 30, 2008. The total projected future liability is \$31.3 million.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The contribution requirements of the plan members are established by State statute. The required contribution rate for fiscal year 2007-08 was 9.306%. The District made \$2,214,793 in contributions to CalPERS for the fiscal year ending June 30, 2008, \$1,739,004 for the fiscal year ending June 30, 2007 and \$1,621,211 for the fiscal year end June 30, 2006, which represents 100% of the required contributions for each fiscal year.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the district is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2007-08 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The district's contributions to STRS for the fiscal years ending June 30, 2008, 2007, and 2006, were \$4,969,321, \$4,560,141, and \$4,327,592, respectively, and equal 100% of the required contributions for each year.

On-Behalf Payments

The district was the recipient of on-behalf payments made by the State of California to STRS. These payments consist of state general fund contributions of \$3,848,899 to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 12 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2008, no expenditures exceeded appropriations in individual funds.

NOTE 13 – SUBSEQUENT EVENTS

Tax Revenue Anticipation Notes

The District issued \$5,000,000 of Tax Revenue Anticipation Notes dated July 1, 2008 through a multiple agency agreement with the County of San Diego and San Diego Districts (Series 2008). The notes mature on July 1, 2009 and yield 1.63% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the San Diego County Treasurer until the District needs to draw funds out. Repayment requirements are that approximately \$5,000,000 principal plus \$174,512 interest to be paid July 1, 2009.

NOTE 14 –GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the La Mesa-Spring Valley School District beginning in the 2008-09 fiscal year. The effect of implementing the new standard on the District is a total estimated accrued actuarial liability of \$31.3 million.

Required Supplementary Information

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	\$ 71,432,616	\$ 71,567,329	\$ 71,567,329	\$ -
Federal	7,230,498	7,212,264	5,911,608	(1,300,656)
Other State	16,759,166	19,076,027	18,964,935	(111,092)
Other Local	8,386,595	10,974,937	10,978,374	3,437
Total Revenues	103,808,875	108,830,557	107,422,246	(1,408,311)
Expenditures				
Certificated Salaries	56,683,563	60,494,604	59,580,491	914,113
Classified Salaries	16,944,852	19,720,903	19,408,217	312,686
Employee Benefits	18,011,221	18,987,643	18,712,993	274,650
Books and Supplies	6,282,063	10,778,398	5,541,191	5,237,207
Services and Other Operating Expenditures	7,192,069	9,460,649	7,652,041	1,808,608
Capital Outlay	590,700	732,249	601,843	130,406
Other Outgo	(92,344)	(109,029)	(109,029)	-
Total Expenditures	105,612,124	120,065,417	111,387,747	8,677,670
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,803,249)	(11,234,860)	(3,965,501)	7,269,359
Other Financing Sources and Uses				
Interfund transfers in	-	146,657	146,657	-
Interfund transfers out	(948,279)	(573,791)	(573,791)	-
Total Other Financing Sources and Uses	(948,279)	(427,134)	(427,134)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,751,528)	(11,661,994)	(4,392,635)	7,269,359
Fund Balances, July 1, 2007	22,021,377	22,021,377	22,021,377	-
Fund Balances, June 30, 2008	\$ 19,269,849	\$ 10,359,383	\$ 17,628,742	\$ 7,269,359

Supplementary Information Section

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2008

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve for Other Than Capital Outlay Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay	Bond Interest & Redemption Fund	Total Non-Major Governmental Funds
ASSETS									
Cash	\$ 254,078	\$ 39,899	\$ 1,687,008	\$ 1,739,805	\$ 869,248	\$ 979,345	\$ 2,448,233	\$ 2,116,489	\$ 10,134,105
Accounts receivable	83,670	1,050,851	14,762	15,006	11,072	8,463	21,117	-	1,204,941
Due from other funds	-	12,287	-	-	-	-	-	-	12,287
Inventories	-	51,317	-	-	-	-	-	-	51,317
Total Assets	\$ 337,748	\$ 1,154,354	\$ 1,701,770	\$ 1,754,811	\$ 880,320	\$ 987,808	\$ 2,469,350	\$ 2,116,489	\$ 11,402,650
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued liabilities	\$ 16,149	\$ 64,537	\$ 71,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 151,859
Due to other funds	32,161	243,440	-	29,539	14,962	-	-	-	320,102
Total Liabilities	48,310	307,977	71,173	29,539	14,962	-	-	-	471,961
FUND BALANCES									
Reserved for:									
Inventories	-	51,317	-	-	-	-	-	-	51,317
Debt service	-	-	-	-	-	-	-	2,116,489	2,116,489
Unreserved, reported in:									
Capital project funds	-	-	-	-	865,358	987,808	2,469,350	-	4,322,516
Special revenue funds	289,438	795,060	1,630,597	1,725,272	-	-	-	-	4,440,367
Total Fund Balances	289,438	846,377	1,630,597	1,725,272	865,358	987,808	2,469,350	2,116,489	10,930,689
Total Liabilities and Fund Balances	\$ 337,748	\$ 1,154,354	\$ 1,701,770	\$ 1,754,811	\$ 880,320	\$ 987,808	\$ 2,469,350	\$ 2,116,489	\$ 11,402,650

LA MESA-SPRING VALLEY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Funds

For the Year Ended June 30, 2008

	REVENUES								Total Non-Major Governmental Funds		
	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Special Reserve for Other Than Capital Outlay Fund	Capital Facilities Fund	County School Facilities Fund	Special Reserve for Capital Outlay	Bond Interest & Redemption Fund			
General Revenues:											
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,319,430	2,319,430		
Earnings on investments	-	-	-	75,334	27,914	-	109,889	67,053	280,190		
Miscellaneous	-	-	-	-	498,726	-	8,348	651	507,725		
Program Revenues:											
Charges for services	9,235	1,692,418	-	-	-	-	-	-	1,701,653		
Operating grants and contributions	802,151	3,195,207	596,160	-	-	-	-	-	4,593,518		
Capital grants and contributions	-	-	-	-	-	30,831	-	-	30,831		
Total revenues	811,386	4,887,625	596,160	75,334	526,640	30,831	118,237	2,387,134	9,433,347		
EXPENDITURES											
Instructional Services:											
Instruction	746,428	-	-	-	-	-	-	-	746,428		
Instruction-related services:											
Supervision of instruction	141,741	-	-	-	-	-	-	-	141,741		
School site administration	52,307	-	-	-	-	-	-	-	52,307		
Pupil Services:											
Food services	-	4,734,671	-	-	-	-	-	-	4,724,671		
All other pupil services	38,271	-	-	-	-	-	-	-	38,271		
General Administration Services:											
All other general administration	29,266	138,431	-	-	14,961	-	-	-	182,658		
Plant services	2,312	-	160,547	-	-	-	-	-	162,859		
Facility acquisition and construction	-	-	936,321	-	7,912	-	-	-	944,233		
Community services	3,088	-	-	-	-	-	-	-	3,088		
Enterprise activities	-	31,297	-	-	-	-	-	-	31,297		
Other outgo:											
Debt service - principal	-	-	-	-	-	-	-	935,000	935,000		
Debt service - interest	-	-	-	-	-	-	-	1,346,500	1,346,500		
Total expenditures	1,013,413	4,894,399	1,096,868	-	22,873	-	-	2,281,500	9,309,053		
Excess (Deficiency) of Revenue Over (Under) Expenditures	(202,027)	(6,774)	(500,708)	75,334	503,767	30,831	118,237	105,634	124,294		
OTHER FINANCING SOURCES (USES)											
Interfund transfers in	-	-	573,791	-	-	-	-	-	573,791		
Interfund transfers out	-	-	-	(47,470)	-	-	-	-	(47,470)		
Total Other Financing Sources (Uses)	-	-	573,791	(47,470)	-	-	-	-	526,321		
Net Change in Fund Balance	(202,027)	(6,774)	73,083	27,864	503,767	30,831	118,237	105,634	650,615		
Fund Balances, June 30, 2007	491,465	853,151	1,557,514	1,697,408	361,591	956,977	2,351,113	2,010,855	10,280,074		
Fund Balances, June 30, 2008	\$ 289,438	\$ 846,377	\$ 1,630,597	\$ 1,725,272	\$ 865,358	\$ 987,808	\$ 2,469,350	\$ 2,116,489	\$ 10,930,689		

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Local Education Agency Organization Structure
June 30, 2008

La Mesa-Spring Valley School District was formed in 1915 and is located in the eastern portion of San Diego County. The District encompasses approximately 26 square miles including the City of La Mesa, a portion of the City of El Cajon and the unincorporated communities of Mt. Helix, Casa de Oro, and Spring Valley. There were no changes in the boundaries of the District during the current year. The District currently operates eighteen elementary schools and four middle schools.

GOVERNING BOARD		
Member	Office	Term Expires
Bob Duff	President	December, 2010
Penny Halgren	Vice President	December, 2010
Emma Turner	Clerk	December, 2008
Rick Winet	Member	December, 2010
Bill Baber	Member	December, 2008

DISTRICT ADMINISTRATORS

Brian E. Marshall
Superintendent

Karen Walker
Assistant Superintendent, Instruction

Claudia Bender
Assistant Superintendent, Human Resources

Ken Clark
Assistant Superintendent, Business Services

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	1,222	1,232
Grades 1 Through 3	3,933	3,942
Grades 4 Through 6	3,974	3,975
Grades 7 and 8	2,932	2,922
Home and Hospital	9	9
Special Education	396	392
Community Day School	4	6
Total Elementary	12,470	12,478
Total Average Daily Attendance	12,470	12,478
		Hours of Attendance
<u>Supplemental Instruction Hours</u>		
Elementary		163,718

The accompanying note is an integral part of this schedule.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2008

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2007-2008 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	35,100	36,000	40,575	180	Complied
Grade 1	42,330	50,400	54,975	180	Complied
Grade 2	42,330	50,400	54,975	180	Complied
Grade 3	42,330	50,400	54,975	180	Complied
Grade 4	52,200	54,000	54,975	180	Complied
Grade 5	52,200	54,000	54,975	180	Complied
Grade 6	52,200	54,000	62,614	180	Complied
Grade 7	57,060	54,000	62,614	180	Complied
Grade 8	57,060	54,000	62,614	180	Complied

The accompanying note is an integral part of this schedule.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2008

General Fund	(Budget) 2009**	2008	2007	2006
Revenues and other financing sources	\$ 102,936,623	\$ 107,568,903	\$ 112,872,934	\$ 104,076,402
Expenditures	107,374,721	111,387,747	109,064,240	100,524,172
Other uses and transfers out	-	573,791	659,975	674,842
Total outgo	107,374,721	111,961,538	109,724,215	101,199,014
Change in fund balance (deficit)	(4,438,098)	(4,392,635)	3,148,719	2,877,388
Ending fund balance	\$ 13,190,644	\$ 17,628,742	\$ 22,021,377	\$ 18,872,658
Available reserves*	\$ 5,171,924	\$ 5,137,264	\$ 10,147,877	\$ 9,130,704
Available reserves as a percentage of total outgo	4.8%	4.6%	9.2%	9.0%
Total long-term debt	\$ 43,719,046	\$ 45,676,631	\$ 48,411,571	\$ 53,204,603
Average daily attendance at P-2**	12,470	12,470	12,797	13,118

The General Fund balance has decreased by \$1,243,917 over the past two years. The fiscal year 2008-09 adopted budget projects a decrease of \$4,438,0978. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund and Special Reserve Fund for Other Than Capital Outlay.

** Adopted September 2008

The accompanying note is an integral part of this schedule.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2007-08 Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13523	\$ 2,841,064
School Breakfast	10.553	13526	99,749
Total U.S. Department of Agriculture			<u>2,940,813</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB):			
Title I - Part A, LEA Grants	84.010	13797	1,524,228
Title II - Improving Teacher Quality Grants	84.367	14341	673,826
Title II - Principal Training, Part A	84.367	(1)	1,400
Title II - Part D, Enhancing Education Through Tech.	84.318	14334	18,654
Title III - Limited English Proficiency	84.365	10084	254,702
Title III - Immigrant Education	84.365	14346	28,620
Title V - Innovation Education, Part A	84.298A	14354	11,920
Title IV - Safe and Drug Free Schools	84.186	14347	56,284
Individuals with Disabilities Education Act (IDEA):			
Special Education Pre-School Local Assistance	84.027	13682	2,153,402
Special Education Pre-School Staff Development	84.713	13431	923
Special Education Early Intervention	84.181	23761	23,327
Pre-School Grant, Part B, Section 619	84.173	13430	153,053
Local Assistance	84.027	13379	216,745
Total U.S. Department of Education			<u>5,117,084</u>
U.S. Department of Health & Human Services:			
Passed through California Department of Health Services:			
Child Development - Federal Child Care	93.596	14292	57,990
Child Development Federal Quality Improvement	93.575	13979	3,061
Medi-Cal Billing Option	93.778	10013	102,419
Total U.S. Department of Health & Human Services			<u>163,470</u>
Total Expenditures of Federal Awards			<u>\$ 8,221,367</u>

(1) Pass-through identifying number is not readily available.

The accompanying note is an integral part of this schedule.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report With Audited
Financial Statements
June 30, 2008

	Cafeteria Fund
June 30, 2008, annual financial and budget report (SACS) balances	\$ 448,523
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Understatement of food sales revenue	397,854
Net adjustments and reclassifications	397,854
June 30, 2008, audited financial statement balances	\$ 846,377

The accompanying note is an integral part of this schedule.

LA MESA SPRING VALLEY SCHOOL DISTRICT
Schedule of Excess Sick Leave
June 30, 2008

Section 19855.3 (a)(3)(c) disclosure

La Mesa Spring Valley School District provides more than 12 sick leave days in a school year to the following groups of employees who are CalSTRS members:

1. Superintendent
2. Assistant Superintendent

See accompanying note to supplementary information.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2008

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Schedule of Excess Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF

- American Institute of CPAs
- California Society of CPAs
- California Association of School Business Officials
- Community Associations Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
La Mesa-Spring Valley School District
La Mesa, California

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of La Mesa-Spring Valley School District as of and for the year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered La Mesa Spring Valley School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the La Mesa Spring Valley School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the La Mesa Spring Valley School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as in findings 2008-1, 2008-2, and 2008-3.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Mesa-Spring Valley School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

La Mesa-Spring Valley School District's responses to the findings identified in our audit are described in Section II of the accompanying Schedule of Audit Findings and Questioned Costs.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
November 17, 2008



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF
• American Institute of CPAs
• California Society of CPAs
• California Association of
School Business Officials
• Community Associations
Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
La Mesa-Spring Valley School District
La Mesa, California

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of La Mesa-Spring Valley School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. La Mesa-Spring Valley School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of La Mesa-Spring Valley School District's management. Our responsibility is to express an opinion on La Mesa-Spring Valley School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Mesa-Spring Valley School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on La Mesa-Spring Valley School District's compliance with those requirements.

In our opinion, La Mesa-Spring Valley School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of La Mesa Spring Valley School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered La Mesa Spring Valley School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board, others within the entity, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



San Diego, California
November 17, 2008



A Professional
Accountancy Corporation

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

MURRIETA OFFICE
PH: 951.698.8783
FAX: 951.699.1064
25090 Jefferson Avenue
Murrieta, CA 92562

SAN DIEGO OFFICE
PH: 619.270.8222
FAX: 619.260.9085
2727 Camino Del Rio S.
Suite 219
San Diego, CA 92108

MEMBERS OF
• American Institute of CPAs
• California Society of CPAs
• California Association of
School Business Officials
• Community Associations
Institute

WEBSITE
www.nnwcpa.com

Licensed by the California
Board of Accountancy

Board of Trustees
La Mesa-Spring Valley School District
La Mesa, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the La Mesa-Spring Valley School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2007-08* published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Not applicable
Adult Education	9	Not applicable
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	3	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

Based on our audit, we found that, for the items tested, the La Mesa-Spring Valley School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the La Mesa-Spring Valley School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rigoberto R. White, PC

San Diego, California

November 17, 2008

Findings and Questioned Costs Section

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Part A, LEA Grants
84.367	Title II - Improving Teacher Quality Grants

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Cards

Finding #2008-1: Associated Student Body Internal Controls (30000)

We perform tests of controls over ASB accounting to determine that an adequate system of internal controls has been established and is being followed. The results of our procedures found the following deficiencies:

La Mesa Middle School

- Uniform inventory and sales records were not kept in the 2007-08 school year. Records of how much inventory was on hand, purchased, sold, or given away were not kept. Cash collected was not reconciled to inventory sold and approximately \$6,000 in inventory (or cash) could not be accounted for. Because of the lack of any control over uniform inventory and sales, it is not feasible to determine whether cash or inventory was lost, stolen or some combination.
- Pre-numbered cash receipts are issued but not accounted for to make sure all cash has been turned in for deposit. This could lead to error being made in the deposits or the pilfering of cash going undetected.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-1: Associated Student Body Internal Controls (30000)

La Presa Middle School

- Pre-numbered cash receipts are not being turned in with the money collected. Therefore, we could not verify a full accounting of all cash turned in for deposit. This could lead to error being made in the deposits or the pilfering of cash going undetected.
-

Recommendation: We recommend that:

- Staff handling student funds continue to be reminded of the importance of good internal controls and District required procedures.
- Internal controls be put into place to account for all uniforms purchased and the subsequent sales. For everyone selling uniforms (including teachers and parents), an accounting is required to show how much inventory was provided for sale, how much was sold and how much was returned. Cash collections must match the sales with any variances investigated. There should also be a secured locked area to keep inventory from being pilfered.
- All the pre-numbered cash receipts are to be accounted for and reconciled to cash deposited. Any significant variances should be investigated with the results documented.

District Response: Responsibility for uniform purchases, sales, and inventory has been transferred back to the staff member previously in charge of them. New internal control procedures to account for uniform purchases, sales, and inventory have been developed and reviewed with the principal and the staff member responsible. Inventory has been moved to a secured locked area, and inventory will be taken on a regular basis. Pre-numbered cash receipts will be reconciled to individual cash deposits.

Finding #2008-2: Fraud Reporting (30000)

Our interviews conducted with management and personnel as required by Auditing Standard #99, *Consideration of Fraud in a Financial Statement Audit*, found there is no anonymous avenue for employees and others to report potential fraud in the District. The ability to report incidences without fear of recrimination is one important component in fraud detection. Fraud hotlines could be established and monitored by internal audit and/or outsourced to agencies that specialize in interviewing techniques aimed at assessing the significance of the reported item.

Recommendation: We recommend the District implement an anonymous tip hotline, investigated by the Internal Auditor, if fiscal in nature, or by other departments (e.g., Human Resources for personnel-related complaints) depending on the issues raised. The District might consider outsourcing the call screening service for greater anonymity and because these services hire skilled interviewers. A periodic report summarizing the nature of the calls, the status of investigations and conclusions should be provided to the Superintendent and the Governing Board.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-2: Fraud Reporting (30000) (continued)

District Response: The District is already a member of the WeTIP program and will notify sites and make the flyers more prominent throughout the district. This is a third-party service and guarantees 100% anonymity to those contacting them.

Finding #2008-3: Cafeteria Accounting (30000)

Our audit of the cafeteria accounting found that sales were not being reconciled and posted monthly to the general ledger. At year-end, the information was posted to the general ledger en mass and an erroneous journal entry of \$440,720 was made to “balance” the activity. In reality, the \$440,720 was unrecorded sales revenues. Thus, by not recording the revenue the erroneous entry had the effect of showing the fund’s expenses exceeding revenues so that the financial position of the fund was false and misleading.

As a consequence of finding the error, we worked with district staff and confirmed the correction which restored the fund’s financial position. This correction is reflected in the audited financial statements. The error was significant and we believe, would have been caught if a journal entry approval process had been in place.

As typical in school district accounting, a significant number of accounting transactions are recorded to the system through journal entries posted by District employees. The District does not have an effective process to ensure that all journal entries are properly prepared, supported, approved and monitored. Practically-speaking, there are many checks and balances on General Fund accounts given budgetary and accounting controls. But, a policy and procedure to ensure that all journal entries are scrutinized for accuracy is important, particularly in the area of cafeteria accounting where the audit adjustment resulted.

Recommendation: We recommend the District develop effective policies and procedures that will strengthen controls over the journal entry posting. In the area of cafeteria accounting, a monthly posting and reconciliation would avoid the risk of financial statement misstatement.

District Response: This mis-statement resulted in a positive adjustment to the ending fund balance of the cafeteria fund. The District has assessed potential areas of weakness that contributed to the error and will be implementing additional controls immediately. These include tighter internal controls and regular posting and reconciliation of the fund.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no audit findings or questioned costs related to federal awards in 2007-08.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2008

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no audit findings or questioned costs related to state awards in 2007-08.

LA MESA-SPRING VALLEY SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
June 30, 2008

There were no audit findings or questioned costs in 2006-07.